

# Legislative Fiscal Bureau

## Fiscal Note

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HF 555 - Enterprise Zones (LSB 2486 HV)

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Fiscal Note Version — New

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### **Description**

House File 555 allows businesses located outside of an enterprise zone to claim a tax credit up to 5.0% of the new investment directly related to new jobs created by the location or expansion of an eligible business under the program. The tax credit is allowed against personal and corporate income tax, the franchise tax for financial institutions, the insurance premium tax, and the moneys and credits tax for credit unions. The proposed legislation provides that the tax credit may be carried forward for seven years and specifies criteria for receiving the tax credits. Business within enterprise zones may also qualify to receive the 5.0% tax credit in addition to the 10.0% investment tax credit the businesses is eligible to receive under current law. House File 555 also allows municipalities to designate super blighted zones within an enterprise zone. These zones must be blighted, high poverty, slum, or high crime areas. These areas would be exempt from all corporate and franchise taxes up to \$2.0 million per zone. In addition, each area would receive an exemption of up to \$2.0 million in property taxes per zone.

### **Assumptions**

1. Businesses located outside of an enterprise zone that create 25 new jobs and invest a minimum of \$2.0 million and that meet all the other quantitative and qualitative criteria outlined in the Bill will be awarded a tax credit of up to 5.0% of the new investment directly related to new jobs created.
2. Over the last three years, there have been 192 Industrial New Jobs Training (260E) projects creating 25 or more new jobs. Approximately 155 of these projects occurred outside of existing enterprise zones. Therefore, an average of 51 additional projects creating at least 25 new jobs have been created each year. This trend will continue, and there will be 51 new projects started per year that will locate outside of existing enterprise zones and will create at least 25 new jobs. Approximately 75.0% of the projects or 38 projects per year will invest at least \$2.0 million per project, and will also meet all the other requirements to qualify for the 5.0% tax credit.
3. Of the 192 Industrial New Jobs Training (260E) projects that have created at least 25 new jobs, 37 were located within an existing enterprise zone. This is an average of approximately 12 new projects per year. This trend will continue, and there will be 12 new projects per year that will locate within an enterprise zone and create at least 25 new jobs. Approximately 75.0% of the projects or 9 projects per year will invest at least \$2.0 million, and will also meet all the other requirements to qualify for the 5.0% investment tax credit. This will be in addition to the 10.0% investment tax credit and other tax incentives the business is eligible to receive under current law.
4. The average investment of a given business project in or outside of an enterprise zone is \$9.6 million. Each eligible project will be awarded a 5.0% investment tax credit of \$480,000. Each year a total of 47 projects or businesses whether in or outside of an enterprise zone will be awarded a combined total of \$22.6 million in tax credits.
5. Businesses will be awarded the tax credits upon completion of the project, which takes two years on average from start to finish. Tax credits will not be awarded until FY 2006.
6. The actual impact of House File 555 depends on the utilization of tax credits awarded. The ability of a business to utilize the tax credits is contingent upon the business' Iowa tax liability. Actual utilization of tax credits cannot be determined due to insufficient

information. The business will be able to carry the tax credits forward for up to seven years.

7. Municipalities will be able to establish super blighted zones. All corporate and franchise taxes in the super blighted zone will be exempted up to a maximum of \$2.0 million per zone. All property taxes will be exempted up to a maximum of \$2.0 million per zone. The Department of Economic Development estimates that a total of eight to ten super blighted zones will be established. It cannot be determined how quickly these zones will be established. This provision of the Bill will reduce future General Fund revenues by up to \$16.0 to \$20.0 million. Local governments will also experience a combined reduction of up to \$16.0 to \$20.0 million. This could impact State aid under the school aid formula.
8. The cost of monitoring and recording the exempted taxes in the super blighted zones cannot be determined. It is not clear how various taxing entities will be able to monitor and record exempted tax liability. It is also not clear how it will be decided who's taxes within a zone will be exempted since there is no application process.

### **Fiscal Impact**

The Fiscal Impact of House File 555 cannot be determined due to insufficient information.

House File 555 allows eligible businesses located in or outside of an enterprise zone to be awarded an investment tax credit of up to 5.0% of the new investment directly related to new jobs created provided certain requirements are met. This provision of the Bill could reduce General Fund revenues by up to \$22.6 million annually starting in FY 2006. The actual impact to the General Fund will depend on the utilization of the tax credits awarded. The ability of a business to utilize the tax credits is contingent upon the business' Iowa tax liability. Actual utilization of tax credits cannot be determined due to insufficient information. The business will be able to carry the tax credits forward for up to seven years.

House File 555 allows municipalities within an enterprise zone that meet certain criteria to establish super blighted zones. All corporate and franchise taxes within these super blighted zones will be exempted up to a maximum of \$2.0 million per zone. All property taxes within the super blighted zones will also be exempted up to a maximum of \$2.0 million per zone. This provision of the Bill will reduce future General Fund revenues by up to \$16.0 to \$20.0 million. Local governments will also experience a combined reduction in revenues of up to \$16.0 to \$20.0 million. This in turn could impact state aid under the school aid formula. The cost of monitoring and recording the exempted taxes in the super blighted zones cannot be determined.

### **Sources**

Iowa Department of Economic Development  
Iowa Department of Revenue and Finance

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/s/ Dennis C Prouty

March 31, 2003

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The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Legislative Fiscal Bureau to members of the Legislature upon request.

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